

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Memphis, Michigan</u>	County Macomb and St. Clair
Audit Date June 30, 2005	Opinion Date July 20, 2005	Date Accountant Report Submitted To State: September 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Memphis, Michigan

**Financial Report
with Supplemental Information
June 30, 2005**

City of Memphis, Michigan

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Memphis, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Memphis' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and Members
of the City Council
City of Memphis, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Memphis' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

July 20, 2005

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City of Memphis, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Memphis, Michigan's financial performance provide an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Memphis on a government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the City's operations in more detail than government-wide financial statements.

The City of Memphis as a Whole

In a condensed format, the table below shows the comparison of net assets as of June 30, 2005 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 625,000	\$ 609,000	\$ 576,000	\$ 503,000	\$ 1,201,000	\$ 1,112,000
Noncurrent assets	1,143,000	914,000	1,571,000	1,458,000	2,714,000	2,372,000
Total assets	1,768,000	1,523,000	2,147,000	1,961,000	3,915,000	3,484,000
Liabilities						
Current liabilities	54,000	73,000	89,000	3,000	143,000	76,000
Long-term liabilities	130,000	149,000	752,000	720,000	882,000	869,000
Total liabilities	184,000	222,000	841,000	723,000	1,025,000	945,000
Net Assets						
Invested in capital assets - Net of related debt	1,049,000	813,000	741,000	738,000	1,790,000	1,551,000
Restricted	158,000	151,000	-	-	158,000	151,000
Unrestricted	377,000	337,000	565,000	500,000	942,000	837,000
Total net assets	<u>\$ 1,584,000</u>	<u>\$ 1,301,000</u>	<u>\$ 1,306,000</u>	<u>\$ 1,238,000</u>	<u>\$ 2,890,000</u>	<u>\$ 2,539,000</u>

City of Memphis, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets increased 13.8 percent from a year ago, increasing from \$2,539,000 to \$2,890,000. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$283,000 in net assets or 21.8 percent during the fiscal year ended June 30, 2005. This increase was the result of the elimination of one position in the police department, the receipt of a fire operations and firefighter safety grant from the Federal Emergency Management Agency, which was used to purchase fire safety equipment, and the receipt of Community Development Block Grant funds used to make road improvements. The business-type activities, consisting of the City's Water and Sewer Fund, experienced a 5.5 percent increase in net assets, rising from \$1,238,000 to \$1,306,000. This increase was primarily due to positive results from operations during the year.

Unrestricted net assets for the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, totaled \$380,000 at June 30, 2005, as compared with \$337,000 in the prior year. The increase in unrestricted net assets is attributed to the positive operating results.

The following table shows a comparison of changes in net assets for the year ended June 30, 2005 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 146,000	\$ 157,000	\$ 340,000	\$ 307,000	\$ 486,000	\$ 464,000
Operating grants and contributions	85,000	132,000	-	-	85,000	132,000
Capital grants and contributions	269,000	59,000	-	-	269,000	59,000
General revenues:						
Property taxes	365,000	387,000	-	-	365,000	387,000
State-shared revenues	116,000	143,000	-	-	116,000	143,000
Cable franchise fees	5,000	5,000	-	-	5,000	5,000
Investment earnings	10,000	8,000	10,000	4,000	20,000	12,000
Miscellaneous	23,000	12,000	-	4,000	23,000	16,000
Total revenue	1,019,000	903,000	350,000	315,000	1,369,000	1,218,000
Program Expenses						
General government	149,000	137,000	-	-	149,000	137,000
Public safety	339,000	418,000	-	-	339,000	418,000
Public works	206,000	244,000	-	-	206,000	244,000
Recreation and culture	37,000	33,000	-	-	37,000	33,000
Interest on long-term debt	5,000	6,000	-	-	5,000	6,000
Water and sewer	-	-	282,000	274,000	282,000	274,000
Total program expenses	736,000	838,000	282,000	274,000	1,018,000	1,112,000
Change in Net Assets	283,000	65,000	68,000	41,000	351,000	106,000
Net Assets - Beginning of year	1,301,000	1,236,000	1,238,000	1,197,000	2,539,000	2,433,000
Net Assets - End of year	<u>\$ 1,584,000</u>	<u>\$ 1,301,000</u>	<u>\$ 1,306,000</u>	<u>\$ 1,238,000</u>	<u>\$ 2,890,000</u>	<u>\$ 2,539,000</u>

City of Memphis, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

Revenues for the City's governmental activities totaled approximately \$1,019,000. These revenue funds were utilized to provide essential City services including public safety, public works, library, and recreation activities.

Public safety (police and fire department) expenditures accounted for 46 percent of the governmental activities operational expenditures for the year ended June 30, 2005. The general government expenditures accounted for 20 percent of the operating costs of the governmental activities.

During 2005, capital improvements in the governmental activities totaled approximately \$318,000, including road construction costs of \$220,000 and machinery and equipment purchases of \$76,000.

Business-type Activities

The City's business-type activities represent the Water and Sewer Enterprise Fund. The City provides water and sewer services to most, but not all, residents. Water and Sewer charges for services totaled \$340,000 for the fiscal year ended June 30, 2005. Included in this amount are debt service fees totaling \$127,000 that are used to pay the principal and interest on the outstanding 1991 Water Bonds and the 2004 Water Treatment Installment Note. The Water and Sewer Fund experienced an increase in net assets of \$68,000 during 2005.

The City's Funds

Our analysis of the City's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local street revenue sharing. The City's major funds for 2005 include the General Fund, the Major Street Fund, and the Water and Sewer Fund.

The General Fund accounts for the majority of the City's governmental day-to-day services. The most significant of these are public safety (police and fire), which incurred expenditures of approximately \$374,000 in 2005. The general operating millage levied by the City supports these services. The Major Street Fund is used to account for maintenance and construction expenditures for streets designated as "major." Most of the activity in this fund is financed by State of Michigan Act 51 revenue sharing. During the year ended June 30, 2005, construction activity consisted of the Pratt Road and Benton Street projects.

City of Memphis, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. During 2005, the General Fund budget was amended to account for the receipt of the Federal Emergency Management Agency grant and related capital outlay activity.

Capital Asset and Debt Administration

As of June 30, 2005, the City had \$2,600,000 invested in a wide range of capital assets, including land, buildings, vehicles, fire equipment, computer equipment, water and sewer lines, and infrastructure assets, which include roads, sidewalks, and related assets. Total outlays for governmental infrastructure assets were \$221,000 in 2005. As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets acquired prior to July 1, 2003.

At June 30, 2005, the City has outstanding debt totaling \$94,000 and \$830,000 in the governmental activities and business-type activities, respectively, related to the acquisition of capital assets. The debt is payable through 2014. In addition, the City has \$44,000 of compensated absences reported in the governmental activities, representing accumulated sick leave. There was a new borrowing during 2005 of \$150,000 related to Water Treatment Improvements.

Economic Factors and Next Year's Budgets and Rates

The City of Memphis, similar to most municipalities in the state of Michigan, continues to experience difficult financial times. The City currently levies the maximum amount of property taxes allowed under Proposal A and the Headlee Amendment, and has experienced reductions in state-shared revenue in recent years. While little or no growth has been experienced in revenues, most expenditures continue to grow at the rate of inflation or higher (in the case of health insurance expenditures). The City has responded to this imbalance between revenue and expenditures through a reduction of discretionary costs, principally capital outlay. The City expects this financial trend to continue into the near future.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the administrative offices at city hall.

City of Memphis, Michigan

Statement of Net Assets June 30, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 582,106	\$ 436,634	\$ 1,018,740
Receivables:			
Accounts	18,270	87,793	106,063
State of Michigan	46,932	-	46,932
Intergovernmental	29,642	-	29,642
Interfund balances (Note 5)	(51,752)	51,752	-
Restricted assets (Note 8)	-	106,133	106,133
Capital assets (Note 4):			
Assets not depreciated	38,000	61,678	99,678
Assets being depreciated (Net)	<u>1,104,582</u>	<u>1,403,065</u>	<u>2,507,647</u>
Total assets	1,767,780	2,147,055	3,914,835
Liabilities			
Accounts payable and accrued liabilities	45,697	10,736	56,433
Noncurrent liabilities (Note 7):			
Due within one year	8,270	77,703	85,973
Due in more than one year	<u>129,527</u>	<u>752,297</u>	<u>881,824</u>
Total liabilities	<u>183,494</u>	<u>840,736</u>	<u>1,024,230</u>
Net Assets			
Invested in capital assets - Net of related debt	1,048,684	740,876	1,789,560
Restricted:			
Streets	155,808	-	155,808
Salvage	2,470	-	2,470
Unrestricted	<u>377,324</u>	<u>565,443</u>	<u>942,767</u>
Total net assets	<u>\$ 1,584,286</u>	<u>\$ 1,306,319</u>	<u>\$ 2,890,605</u>

City of Memphis, Michigan

	Program Revenues		
	Charges for	Operating	Capital Grants
Expenses	Services	Grants and	and
		Contributions	Contributions
Functions/Programs			
Primary government:			
Governmental activities:			
General government	\$ 149,164	\$ 13,669	\$ -
Public safety	338,566	86,901	77,830
Public works	206,249	34,042	84,825
Recreation and culture	36,588	11,849	-
Interest on long-term debt	5,435	-	-
Total governmental activities	736,002	146,461	84,825
Business-type activities - Water and sewer	281,925	339,942	-
Total primary government	<u>\$ 1,017,927</u>	<u>\$ 486,403</u>	<u>\$ 84,825</u>
			<u>\$ 268,472</u>
General revenues:			
Property taxes			
State-shared revenues			
Cable franchise fees			
Investment earnings			
Miscellaneous			
Total general revenues			
Change in Net Assets			
Net Assets - July 1, 2004			
Net Assets - June 30, 2005			

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (135,495)	\$ -	\$ (135,495)
(173,835)	-	(173,835)
103,260	-	103,260
(24,739)	-	(24,739)
(5,435)	-	(5,435)
(236,244)	-	(236,244)
-	58,017	58,017
(236,244)	58,017	(178,227)
365,374	-	365,374
115,717	-	115,717
5,378	-	5,378
10,310	9,922	20,232
22,949	-	22,949
519,728	9,922	529,650
283,484	67,939	351,423
1,300,802	1,238,380	2,539,182
\$ 1,584,286	\$ 1,306,319	\$ 2,890,605

City of Memphis, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Major Special Revenue Fund - Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 350,973	\$ 97,577	\$ 133,556	\$ 582,106
Receivables:				
Accounts	18,270	-	-	18,270
State of Michigan	40,853	4,649	1,430	46,932
Intergovernmental	29,642	-	-	29,642
Total assets	<u>\$ 439,738</u>	<u>\$ 102,226</u>	<u>\$ 134,986</u>	<u>\$ 676,950</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 38,315	\$ 1,448	\$ 1,248	\$ 41,011
Deferred revenue (Note 6)	51,491	-	-	51,491
Due to other funds (Note 5)	51,752	-	-	51,752
Total liabilities	141,558	1,448	1,248	144,254
Fund Balances				
Reserved for salvage	2,470	-	-	2,470
Unreserved and undesignated	295,710	100,778	-	396,488
Unreserved - Reported in Special Revenue Funds	-	-	133,738	133,738
Total fund balances	<u>298,180</u>	<u>100,778</u>	<u>133,738</u>	<u>532,696</u>
Total liabilities and fund balances	<u>\$ 439,738</u>	<u>\$ 102,226</u>	<u>\$ 134,986</u>	<u>\$ 676,950</u>

City of Memphis, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2005

Total Fund Balances of Governmental Funds	\$	532,696
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	1,142,582
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State revenue-sharing and other receivables collected more than 30 days after year end are not available to pay for current year expenditures	51,491
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Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Notes and bonds payable	(93,898)
Compensated absences	(43,899)

Accrued interest payable is not included as a liability in the governmental funds	<u>(4,686)</u>
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Net Assets of Governmental Activities	\$	<u>1,584,286</u>
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City of Memphis, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Major Special Revenue Fund - Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 365,374	\$ -	\$ -	\$ 365,374
Federal sources	238,830	-	-	238,830
State sources	121,648	61,746	18,983	202,377
Charges for services	149,195	-	-	149,195
Interest and other	65,060	1,494	2,484	69,038
Total revenue	940,107	63,240	21,467	1,024,814
Expenditures				
General government:				
Administration	107,747	-	-	107,747
Assessment	6,114	-	-	6,114
Board of Review	782	-	-	782
Community center	5,685	-	-	5,685
City Hall	9,256	-	-	9,256
Planning Commission	820	-	-	820
Recordkeeping	-	6,129	2,275	8,404
Total general government	130,404	6,129	2,275	138,808
Public safety:				
Police department	193,799	-	-	193,799
Fire department	81,684	-	-	81,684
FEMA Grant capital outlay	86,126	-	-	86,126
Fire hydrants	9,520	-	-	9,520
Ambulance service	2,500	-	-	2,500
Total public safety	373,629	-	-	373,629
Public works:				
Department of public works	93,534	-	-	93,534
Community development block grant	220,642	-	-	220,642
Street lighting	17,984	-	-	17,984
Refuse collection	31,923	-	-	31,923
Construction	-	5,568	-	5,568
Engineering	-	-	25,739	25,739
Routine maintenance	-	14,569	10,969	25,538
Traffic services	-	95	42	137
Winter maintenance	-	6,605	6,677	13,282
Total public works	364,083	26,837	43,427	434,347

City of Memphis, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Continued) Year Ended June 30, 2005

	General Fund	Major Special Revenue Fund - Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Expenditures (Continued)				
Recreation and cultural:				
Library	\$ 48,712	\$ -	\$ -	\$ 48,712
Recreation department	15,003	-	-	15,003
Total recreation and cultural	63,715	-	-	63,715
Total expenditures	931,831	32,966	45,702	1,010,499
Excess of Revenue Over (Under) Expenditures	8,276	30,274	(24,235)	14,315
Other Financing Sources (Uses)				
Transfers in	15,570	-	45,363	60,933
Transfers out	(30,363)	(15,000)	(15,570)	(60,933)
Total other financing sources (uses)	(14,793)	(15,000)	29,793	-
Net Change in Fund Balances	(6,517)	15,274	5,558	14,315
Fund Balances - Beginning of year	304,697	85,504	128,180	518,381
Fund Balances - End of year	<u>\$ 298,180</u>	<u>\$ 100,778</u>	<u>\$ 133,738</u>	<u>\$ 532,696</u>

City of Memphis, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances of Governmental Funds **\$ 14,315**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (82,761)	
Capital outlay	<u>318,285</u>	235,524

Loss on sale of assets		(7,390)
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Revenue is recorded in the statement of activities at the time it is earned, without regard to timeliness of collection		29,599
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Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		402
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		7,875
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Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities		<u>3,159</u>
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Change in Net Assets of Governmental Activities **\$ 283,484**

City of Memphis, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Net Assets June 30, 2005

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 436,634
Accounts receivable	87,793
Due from other funds (Note 5)	<u>51,752</u>

Total current assets 576,179

Noncurrent assets:

Restricted assets (Note 8)	106,133
Capital assets - Net (Note 4)	<u>1,464,743</u>

Total noncurrent assets 1,570,876

Total assets 2,147,055

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	10,736
Current portion of long-term debt (Note 7)	<u>77,703</u>

Total current liabilities 88,439

Long-term debt - Net of current portion (Note 7) 752,297

Total liabilities 840,736

Net Assets

Invested in capital assets - Net of related debt	740,876
Unrestricted	<u>565,443</u>

Total net assets \$ 1,306,319

City of Memphis, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2005

Operating Revenue

Water sales	\$ 112,381
Sewage disposal	86,958
Other	<u>10,830</u>
Total operating revenue	210,169

Operating Expenses

Wages	115,089
Supplies	1,619
Utilities	9,069
Repairs and maintenance	25,102
Equipment rental	13,942
Training and education	815
Contracted services	15,522
Insurance	2,710
Depreciation	46,380
Miscellaneous	<u>1,729</u>
Total operating expenses	<u>231,977</u>

Operating Loss (21,808)

Nonoperating Revenue (Expenses)

Interest earned	9,922
Interest expense	(49,548)
Tap fees	2,552
Paying agent fees	(400)
Debt service fees	<u>127,221</u>
Total nonoperating revenue	<u>89,747</u>

Change in Net Assets 67,939

Net Assets - Beginning of year 1,238,380

Net Assets - End of year \$ 1,306,319

City of Memphis, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2005

Cash Flows from Operating Activities

Receipts from customers	\$ 189,268
Payments to other suppliers and employees	<u>(166,150)</u>
Net cash provided by operating activities	23,118

Cash Flows from Noncapital Financing Activities - Loans made to other funds

(51,752)

Cash Flows from Capital and Related Financing Activities

Principal and interest paid on capital debt	(89,948)
Purchase of capital assets	(52,875)
Proceeds from debt	150,000
Collection of debt service fees	127,221
Collection of tap fees	<u>2,552</u>
Net cash provided by capital and related financing activities	136,950

Cash Flows from Investing Activities - Interest received on investments

9,922

Net Increase in Cash and Cash Equivalents

118,238

Cash and Cash Equivalents - Beginning of year

424,529

Cash and Cash Equivalents - End of year

\$ 542,767

Balance Sheet Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 436,634
Restricted assets (Note 8)	<u>106,133</u>
Total cash and cash equivalents	<u><u>\$ 542,767</u></u>

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (21,808)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	46,380
Changes in assets and liabilities:	
Receivables	(20,901)
Prepays	11,675
Accounts payable and accrued liabilities	<u>7,772</u>
Net cash provided by operating activities	<u><u>\$ 23,118</u></u>

City of Memphis, Michigan

Fiduciary Fund - Agency Fund Statement of Assets and Liabilities June 30, 2005

	<u>Agency Fund</u>
Assets - Cash and cash equivalents (Note 3)	<u><u>\$ 6,000</u></u>
Liabilities - Due to other governmental units	<u><u>\$ 6,000</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Memphis (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major governmental funds and major Enterprise Fund are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Major Street Fund - The Major Street Fund accounts for the development of major roads and related construction and administrative expenses.

The City reports the following major Enterprise Fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund type:

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Residual balances outstanding between the governmental activities and the business-type activities, if any, are reported in the government-wide financial statements as "internal balances."

Property Taxes - Properties are assessed as of December 31 and the related property taxes become a lien at that time. These taxes are billed on July 1 of the following year and are due on August 31 with a final collection date of February 28 before they are added to the county tax rolls.

The 2004 taxable valuation of the City totaled \$23,944,000, on which ad valorem taxes levied consisted of 15.1195 mills for City operating purposes. The ad valorem taxes levied raised \$362,000 for City operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, utility systems, etc.), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Roads and sidewalks	20 years
Utility systems	50 to 70 years
Buildings and building improvements	20 to 50 years
Machinery and equipment	10 to 30 years
Vehicles	10 to 20 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick pay benefits. All sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when due for payment (generally for employee terminations as of year end).

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

City of Memphis, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Budgets for the fiscal year commencing July 1 are prepared by the city clerk/treasurer and adopted by the City Council.

The budget document presents information by fund, activity, and line item. The legal level of budgetary control adopted by the City Council is the activity level. Budget amendments were not significant during the year.

Amounts encumbered for purchase orders, contracts, and other commitments are not tracked during the year. Budget appropriations are considered to be spent only when an expenditure has been recognized (i.e., when goods are received or services are rendered).

Excess of Expenditures Over Appropriations in Budgeted Funds - There were no significant expenditure budget variances during the year.

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Cumulative expenditures over revenue - July 1, 2004	\$ (9,220)
2004-2005 building department activity:	
Permit revenue	\$ 6,881
Expenditures	<u>(7,548)</u>
Excess of expenditures over revenue	<u>(667)</u>
Cumulative expenditures over revenue - June 30, 2005	<u><u>\$ (9,887)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated one bank for the deposit of its funds. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$35,820 of bank deposits (checking accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Bank investment pool	\$ 78,221	30 days

City of Memphis, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 78,221	Aaa	Moody's
Bank investment pool	949,693	Not rated	

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Capital assets not being depreciated - Land	\$ 38,000	\$ -	\$ -	\$ 38,000
Capital assets being depreciated:				
Roads and sidewalks	97,089	220,642	-	317,731
Vehicles	502,929	-	(24,131)	478,798
Buildings	416,000	21,377	-	437,377
Machinery and equipment	426,927	76,266	(300)	502,893
Subtotal	1,442,945	318,285	(24,431)	1,736,799
Accumulated depreciation:				
Roads and sidewalks	2,427	10,371	-	12,798
Vehicles	180,485	27,655	(16,892)	191,248
Buildings	200,580	10,649	-	211,229
Machinery and equipment	183,006	34,086	(150)	216,942
Subtotal	566,498	82,761	(17,042)	632,217
Net capital assets being depreciated	876,447	235,524	(7,389)	1,104,582
Net capital assets	\$ 914,447	\$ 235,524	\$ (7,389)	\$ 1,142,582

City of Memphis, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 11,355	\$ -	\$ -	\$ 11,355
Construction in progress	-	50,323	-	50,323
Subtotal	11,355	50,323	-	61,678
Capital assets being depreciated:				
Utility system	1,853,512	2,552	-	1,856,064
Buildings and improvements	175,106	-	-	175,106
Machinery and equipment	177,982	-	-	177,982
Subtotal	2,206,600	2,552	-	2,209,152
Accumulated depreciation:				
Utility system	538,426	33,931	-	572,357
Buildings and improvements	102,928	2,814	-	105,742
Machinery and equipment	118,353	9,635	-	127,988
Subtotal	759,707	46,380	-	806,087
Net capital assets being depreciated	1,446,893	(43,828)	-	1,403,065
Net capital assets	\$ 1,458,248	\$ 6,495	\$ -	\$ 1,464,743

Depreciation expense was charged to programs of the governmental activities as follows:

General government	\$ 7,471
Public safety	46,788
Public works	20,540
Recreation and culture	7,962
Total governmental activities	\$ 82,761

Construction Commitments - The City has one active construction project at year end related to water treatment improvements. At year end, the City had spent \$50,323 to date on its commitments with contractors and had a \$93,677 remaining commitment.

City of Memphis, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows at June 30, 2005:

Receivable Fund	Payable Fund	Amount
Water and Sewer Fund	General Fund	\$ 51,752

Interfund balances resulted from a loan that was made from the Water and Sewer Fund to the General Fund to cover construction costs until grant funding becomes available.

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers Out			Total
	General Fund	Major Street Fund	Nonmajor Governmental Funds	
Transfers in:				
General Fund	\$ -	\$ -	\$ 15,570	\$ 15,570
Nonmajor governmental funds	30,363	15,000	-	45,363
Total	<u>\$ 30,363</u>	<u>\$ 15,000</u>	<u>\$ 15,570</u>	<u>\$ 60,933</u>

The transfer out from the Major Street Fund represents a transfer of Act 51 revenue to the Local Street Fund.

The remaining transfers represent discretionary funds to be used for capital improvements. Transfers out from the General Fund are to the various department equipment and replacement funds for future purposes. Transfers in to the General Fund are from the various department equipment and replacement funds for capital outlay expenditures made in the current period.

City of Memphis, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2005, the components of deferred revenue are as follows:

	Unavailable	Unearned
State revenue-sharing and federal grant payments not received until more than 30 days after year end	\$ 51,491	\$ -

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

Long-term debt activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
Installment purchase agreement -							
2001 Library acquisition:							
Amount of issue - \$154,000		\$7,392 -					
Maturing through 2014	5.70%	\$12,963	\$ 101,773	\$ -	\$ 7,875	\$ 93,898	\$ 8,270
Accrued compensated absences	-	-	47,058	-	3,159	43,899	-
Total governmental activities			\$ 148,831	\$ -	\$ 11,034	\$ 137,797	\$ 8,270
Business-type activities:							
1991 General Obligation Water Bonds -							
Water and Sewer Fund Bonds:							
Amount of Issue - \$995,000	6.50% -	\$40,000 -					
Maturing through 2014	7.00%	\$90,000	\$ 720,000	\$ -	\$ 40,000	\$ 680,000	\$ 50,000
Installment purchase note -							
2004 Water Treatment:							
Amount of issue - \$150,000		\$27,703-					
Maturing through 2009	3.99%	\$32,386	-	150,000	-	150,000	27,703
Total business-type activities			\$ 720,000	\$ 150,000	\$ 40,000	\$ 830,000	\$ 77,703

City of Memphis, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 8,270	\$ 5,442	\$ 13,712	\$ 77,703	\$ 52,893	\$ 130,596
2007	8,748	4,964	13,712	83,804	48,438	132,242
2008	9,254	4,458	13,712	94,956	43,576	138,532
2009	9,778	3,934	13,712	101,151	37,961	139,112
2010	10,354	3,358	13,712	112,386	31,929	144,315
2011-2015	47,494	7,097	54,591	360,000	62,866	422,866
Total	<u>\$ 93,898</u>	<u>\$ 29,253</u>	<u>\$ 123,151</u>	<u>\$ 830,000</u>	<u>\$ 277,663</u>	<u>\$ 1,107,663</u>

Note 8 - Restricted Assets

Assets of the Water and Sewer Fund have been restricted for unspent debt proceeds for the purpose of funding water treatment improvements.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and general liability and participates in the Michigan Municipal League Risk Pool for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Retirement Plan

The City offers a SEP IRA defined contribution retirement plan to all full-time employees with at least one year of service time. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by City Council resolution, the City contributes 4 percent of covered payroll to the plan and contributions totaled approximately \$9,500 for the year ended June 30, 2005.

Required Supplemental Information

City of Memphis, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 362,516	\$ 362,516	\$ 365,374	\$ 2,858
Federal sources	161,000	238,830	238,830	-
State sources	118,940	118,940	121,648	2,708
Charges for services	133,364	135,364	149,195	13,831
Interest and other	23,266	39,066	65,060	25,994
Total revenue	799,086	894,716	940,107	45,391
Expenditures				
General government:				
Administration	107,851	111,115	107,747	3,368
Assessment	5,800	5,800	6,114	(314)
Board of Review	650	650	782	(132)
Community center	4,723	4,723	5,685	(962)
City Hall	9,234	9,234	9,256	(22)
Planning Commission	1,380	1,380	820	560
Total general government	129,638	132,902	130,404	2,498
Public safety:				
Police department	199,223	199,223	193,799	5,424
Fire department	83,168	83,168	81,684	1,484
FEMA Grant capital outlay	-	77,830	86,126	(8,296)
Fire hydrants	9,520	9,520	9,520	-
Ambulance service	2,500	2,500	2,500	-
Total public safety	294,411	372,241	373,629	(1,388)
Public works:				
Department of Public Works	93,008	93,008	93,534	(526)
Community Development Block Grant	161,000	212,752	220,642	(7,890)
Street lighting	17,500	17,500	17,984	(484)
Refuse collection	34,279	34,279	31,923	2,356
Total public works	305,787	357,539	364,083	(6,544)
Recreation and cultural:				
Library	31,366	51,207	48,712	2,495
Recreation department	11,944	14,944	15,003	(59)
Total recreation and cultural	43,310	66,151	63,715	2,436
Total expenditures	773,146	928,833	931,831	(2,998)
Excess of Revenue Over (Under) Expenditures	25,940	(34,117)	8,276	42,393
Other Financing Sources (Uses)				
Transfers in	-	60,057	15,570	(44,487)
Transfers out	(25,940)	(25,940)	(30,363)	(4,423)
Total other financing sources (uses)	(25,940)	34,117	(14,793)	(48,910)
Net Change in Fund Balance	-	-	(6,517)	(6,517)
Fund Balance - Beginning of year	304,697	304,697	304,697	-
Fund Balance - End of year	<u>\$ 304,697</u>	<u>\$ 304,697</u>	<u>\$ 298,180</u>	<u>\$ (6,517)</u>

City of Memphis, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2005

	Original and Amended Budget	Actual	Variance with Amended Budget
Revenue			
State sources	\$ 62,551	\$ 61,746	\$ (805)
Interest and rent	600	1,494	894
Total revenue	63,151	63,240	89
Expenditures			
General government - Recordkeeping	6,070	6,129	(59)
Public works:			
Construction	7,150	5,568	1,582
Routine maintenance	22,843	14,569	8,274
Traffic services	4,100	95	4,005
Winter maintenance	7,988	6,605	1,383
Total public works	42,081	26,837	15,244
Total expenditures	48,151	32,966	15,185
Excess of Revenue Over Expenditures	15,000	30,274	15,274
Other Uses - Transfer out	(15,000)	(15,000)	-
Net Change in Fund Balance	-	15,274	15,274
Fund Balance - Beginning of year	85,504	85,504	-
Fund Balance - End of year	<u>\$ 85,504</u>	<u>\$ 100,778</u>	<u>\$ 15,274</u>

Other Supplemental Information

City of Memphis, Michigan

	Special Revenue Funds				
	Local Street	Police Equipment and Replacement	Fire Equipment and Replacement	DPW Equipment and Replacement	Clerk/Treasurer Equipment and Replacement
Assets					
Cash and cash equivalents	\$ 54,848	\$ 16,122	\$ 61,947	\$ 584	\$ 55
Receivables - State of Michigan	<u>1,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 56,278</u>	<u>\$ 16,122</u>	<u>\$ 61,947</u>	<u>\$ 584</u>	<u>\$ 55</u>
Liabilities and Fund Balances					
Liabilities - Accounts payable and accrued liabilities	\$ 1,248	\$ -	\$ -	\$ -	\$ -
Fund Balances - Unreserved	<u>55,030</u>	<u>16,122</u>	<u>61,947</u>	<u>584</u>	<u>55</u>
Total liabilities and fund balances	<u>\$ 56,278</u>	<u>\$ 16,122</u>	<u>\$ 61,947</u>	<u>\$ 584</u>	<u>\$ 55</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

<u>Library Equipment and Replacement</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 133,556
-	<u>1,430</u>
<u>\$ -</u>	<u>\$ 134,986</u>
\$ -	\$ 1,248
-	<u>133,738</u>
<u>\$ -</u>	<u>\$ 134,986</u>

City of Memphis, Michigan

	Special Revenue Funds				
	Local Roads	Police Equipment and Replacement	Fire Equipment and Replacement	DPW Equipment and Replacement	Clerk/Treasurer Equipment and Replacement
Revenue					
State sources	\$ 18,983	\$ -	\$ -	\$ -	\$ -
Interest and other	1,226	163	954	46	1
Total revenue	20,209	163	954	46	1
Expenditures					
General government - Recordkeeping	2,275	-	-	-	-
Public works:					
Engineering	25,739	-	-	-	-
Routine maintenance	10,969	-	-	-	-
Traffic services	42	-	-	-	-
Winter maintenance	6,677	-	-	-	-
Total public works	43,427	-	-	-	-
Total expenditures	45,702	-	-	-	-
Excess of Revenue Over (Under)					
Expenditures	(25,493)	163	954	46	1
Other Financing Sources (Uses)					
Transfers in	15,000	6,080	24,283	-	-
Transfers out	-	-	(7,265)	-	-
Total other financing sources (uses)	15,000	6,080	17,018	-	-
Net Change in Fund Balances	(10,493)	6,243	17,972	46	1
Fund Balances - Beginning of year	65,523	9,879	43,975	538	54
Fund Balances - End of year	\$ 55,030	\$ 16,122	\$ 61,947	\$ 584	\$ 55

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2005

Library Equipment and Replacement	Total Nonmajor Governmental Funds
\$ -	\$ 18,983
94	2,484
94	21,467
-	2,275
-	25,739
-	10,969
-	42
-	6,677
-	43,427
-	45,702
94	(24,235)
-	45,363
(8,305)	(15,570)
(8,305)	29,793
(8,211)	5,558
8,211	128,180
\$ -	\$ 133,738



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July 20, 2005

Honorable Mayor and
Members of the City Council
City of Memphis
35095 Potter Street
Memphis, MI 48041

Dear Mayor and Members of the City Council:

We recently completed our audit of the basic financial statements of the City of Memphis for the year ended June 30, 2005. In addition to the financial report, we have the following comments and recommendations for your review and consideration.

OVERVIEW OF GENERAL FUND FINANCIAL CONDITION

During the year ended June 30, 2005, the City's General Fund expenditures exceeded revenue by approximately \$6,500. As a result, fund balance at June 30, 2005, decreased to approximately \$298,000, of which approximately \$296,000 is unreserved and undesignated.

The City continues to be faced with budgetary challenges. Many challenges, including further reductions in State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs, are characteristics of the City and its physical framework. The maintenance of an adequate level of working capital is paramount to the City's ability to meet financial challenges without affecting the level of services provided to citizens or the ability to fund future obligations.

REVENUE SHARING ESTIMATES

As you are aware, the slowdown in the State's economy continues to directly impact revenue sharing payments. State shared revenue accounts for approximately 12 percent of the City's General Fund revenues. Though the State's sales tax collections (the sole source of revenue sharing payments to local units of government) have been near what was expected, the State continues to experience budget problems as a result of disappointing collections of State income tax and single business tax. For the time being, local government has been spared additional revenue sharing cuts for fiscal years 2005 and 2006, as the Governor's proposed September 30, 2006 budget holds the State revenue sharing payments at approximately the 2004/2005 levels.



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We recommend that the City continue to evaluate the impact of the revenue sharing reductions as you amend your 2006 budget. Updated information can be obtained from the Department of Treasury's web site at <http://www.treas.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at 517.373.2697. We will continue to update the City as developments occur.

INTERNAL CONTROL MATTERS

Designing and maintaining a sound system of internal controls over the City's assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the City's 2005 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with key members of the administration and other employees throughout the municipality, a retrospective review of accounting estimates, a detailed review of all journal entries and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

However, as part of the City's process of continuous improvement, we noted the following internal control matter that we bring to your attention for consideration:

Bank Reconciliations - Sound internal controls dictate that bank account reconciliations be prepared on a timely basis for all cash accounts. Bank account reconciliations are one of the most important aspects of the internal control environment for the safeguarding of assets and timely identification and correction of errors in the financial records. During the course of our audit, we noted instances in which bank reconciliations performed for the General Fund checking account did not fully reconcile to the general ledger. Additionally, we noted that bank reconciliations were not being performed during the year for the Treasurer's tax account. Although there is minimal activity in this account, a timely, accurate reconciliation should be consistently performed on all cash accounts to ensure proper recording of activity.

REMOTE LOCATION CASH RECEIPTS

In order to ensure that the City receives full compensation for the services it provides, it is important to consider the controls in place over cash collected at locations other than the City's offices to verify that such receipts are subject to the oversight and control of the Treasurer. The full amount of such receipts should be turned over to the Treasurer with proper supporting documentation. At that time, any related expenditures should be made according to the City's normal cash disbursement policies. It is our understanding that receipts related to salvage inspections are not handled in this manner. We recommend that the City examine the procedures related to these collections and modify them to the extent that they do not provide adequate control.

Honorable Mayor and
Members of the City Council
City of Memphis

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July 20, 2005

BID POLICY

During the year ended June 30, 2005, the City solicited bids before purchasing certain equipment and starting a construction project. However, the City does not have a documented policy on their procedures for soliciting and accepting bids. We recommend that the Board formally adopt a policy regarding the thresholds at which such procedures are required and the specific guidelines that are to be followed. We would be happy to assist the City with developing such a policy.

INVESTMENT REPORTS

As required for all local units by Public Act 196 of 1997, the City has adopted an investment policy. This Act also requires that the "Investment Officer annually provide a written report to the governing body concerning the investment of funds." It is our understanding that such a report has not been provided to Council on an annual basis. We recommend the City review this procedure to ensure compliance with Act 196.

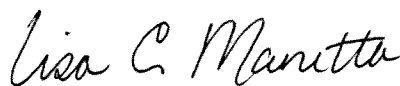
We would like to thank the City for the continued opportunity to serve as your auditors and for the assistance and cooperation extended to us throughout this audit. We would be happy to answer any questions you have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Christina M. Kostiuk



Lisa C. Manetta